

Documents on Diplomacy: The Source

Meeting the Challenges of the 21st Century *A USAID White Paper, January 2004*

OVERVIEW

The 2002 National Security Strategy assigns development a new prominence in U.S. national security, along with diplomacy and defense. At the same time, there is an intense debate in the foreign policy community about how to enhance the effectiveness of foreign aid.

This paper addresses both of these issues. It clarifies the evolving role of U.S. foreign assistance in a rapidly changing global context; and it suggests ways to increase aid effectiveness and policy coherence through greater clarity of purpose, alignment of resources with objectives, and strategic management.

EVOLVING ROLE OF FOREIGN ASSISTANCE

Given many threats to national security in the post-Cold War, post-9/11 world, U.S. foreign assistance must address more than humanitarian and developmental goals. Conditions of instability and insecurity that arise from terrorism, transnational crime, failing states, and global disease must be mitigated for sustained economic and social development to take root and flourish.

Thus, U.S. foreign assistance now must be understood as addressing five core operational goals:

- Promoting transformational development
- Strengthening fragile states
- Providing humanitarian relief
- Supporting U.S. geostrategic interests
- Mitigating global and transnational ills

Each goal presents distinct challenges, and achieving each will require different knowledge and responses. While all require a deep understanding of the local context and drivers of change, each must be approached with different considerations for risk, program design, and accountability.

From the perspective of long-term U.S. interests, the goal of transformational development remains the best investment. Only through building good policies, stable institutions, and local capacity will developing countries create their own prosperity and assume responsibility for their own security. As a nation develops,

it has less need for external aid to deal with disasters and conflict or to address disease pandemics and transnational crime. Stable, prosperous, democratic nations make better partners for the United States as they address their own interests from a foundation of interdependence. And, such countries offer growing opportunities for mutually beneficial trade and investment.

Not all countries enjoy the conditions needed for transformational development. In countries that are not committed to reform, conventional development programs are unlikely to advance development. In fact, assistance actually may mask underlying instability or contribute to state fragility. Hence, it is critical to invest resources in these countries very carefully, with clear expectations as to what is possible in the short term, and with flexibility tailored to changing circumstances.

INCREASING THE EFFECTIVENESS AND POLICY COHERENCE OF FOREIGN ASSISTANCE

Donors have learned much about development and aid effectiveness in the past five decades, including the following:

- Foreign aid is essentially supportive, while local leadership, ownership, and participation are critical.
- Progress is primarily a function of commitment and political will to rule justly, promote economic freedom, and invest in people.
- Institutions, not resources, matter most.
- Foreign aid and trade are complements to—not substitutes for—each other.

There are clear avenues for improving U.S. foreign aid effectiveness, including:

- Clarify the goals of aid and align the resources with those goals.
- Allocate aid across and within countries more selectively.
- Emphasize strengthening institutional capacity.
- Place more emphasis on host country partnership, ownership, and internal participation.
- Pay more attention to the constraints of absorptive capacity.

- Improve donor coordination and harmonization.
- Ensure more timely and effective graduation from traditional development assistance.

WHAT MUST CHANGE TO ACHIEVE GREATER EFFECTIVENESS AND POLICY COHERENCE

Important changes are already underway, including:

USAID and State coordination—Building on the National Security Strategy, USAID and the State Department have recently created a Joint Strategic Plan to harmonize foreign policy and development goals. Both are increasing administrative and policy coherence through the creation of the Joint Management Council and Joint Policy Council. In all core goal areas, State and USAID will work more closely to build the political commitment that underpins reform and progress.

USAID and Millennium Challenge Corporation [MCC] coordination—USAID will assure strong complementarity between its development portfolio and that of the MCC, employing principles of selectivity based on commitment and performance in countries that can aspire to MCC eligibility or are good candidates for transformational development.

USAID Fragile States Strategy—USAID will improve its strategic analysis of state fragility and conflict vulnerability. USAID will also identify new program approaches for use in selected fragile states and increased organizational responsiveness to the internal dynamics of these states.

Resource rationalization—Strategic management of resources (including policies, strategies, resource allocation, program guidance, and results reporting) will be phased in to better distinguish and align resources by specific goal area within USAID's strategic budgeting process.

With support from key executive and legislative decision makers, further reforms could help achieve even greater effectiveness and coherence:

Increased availability and flexibility of resources for transformational development and fragile states are needed to achieve the core foreign aid goals. With the current budget structure, geostrategic concerns and transnational issues are well funded. In countries that will not immediately benefit from the MCA, sufficient resources appropriate for transformational development are quite limited relative to needs. In particular, funds that support country economic growth strategies are scarce. ■

INTRODUCTION

This paper is about strategically reforming U.S. bilateral foreign aid, particularly the substantial portion administered by USAID. It builds on the promising reforms embodied in President Bush's proposal for a Millennium Challenge Account. It is motivated by two factors.

First, development progress has been prominently recognized as a vital cornerstone of national security. The September 2002 National Security Strategy—issued one year after the terrorist attacks on the United States—emphasizes development as one of the three strategic areas of emphasis (along with defense and diplomacy) based on the following considerations:

- The main security threats to the United States stem from the confluence of terrorism and proliferation of weapons of mass destruction, and global criminal networks.
- Weak states—in the developing world and among formerly communist countries—provide the most permissive environments and the least resistance for these threats.
- Contrary to perceptions after the Cold War, the United States and other donor countries cannot afford to ignore such states.
- The development challenge is that of “widening the circle of development.” That includes strengthening currently fragile states to lay the foundations for development progress, and achieving or maintaining development progress in other countries so that they do not become weak states.
- Supporting the latter point, research indicates that the countries most prone to conflict, crisis, and state failure are those that are poor or not making development progress.

In addition to heightened security interests, U.S. national interests in development progress and developing countries have expanded and intensified with globalization. On the economic side, successful developing countries—both advanced countries and poor countries making steady progress—have provided the most dynamic markets for U.S. exports. And, rapidly expanding exports have played a significant and increasing role in overall United States growth. Development progress also enhances the capacity (and often the willingness) of countries to cooperate on a growing and increasingly important set of global and transnational concerns. Humanitarian interests in helping others—especially the poor and victims of famine and natural catastrophes—loom larger than ever. Finally, effective development cooperation is arguably an important cornerstone for international cooperation more generally.

In line with the National Security Strategy, the State–USAID Strategic Plan includes development as one of the three strategic objectives, along with defense and diplomacy. Again, this amounts

to a major upgrade in the acknowledged importance of developing countries and development progress among broad U.S. foreign policy priorities.

Second, to adequately respond to these challenges U.S. bilateral foreign aid needs to become much more effective. A recent study from the Center for Global Development (CGD) notes, “U.S. bilateral assistance has been heavily criticized for its lack of focus and for achieving weak results in recipient countries.”

The CGD study offers a helpful analysis of the sources of perceived weakness in U.S. bilateral foreign aid—one that essentially points to problems of policy coherence: While part of the problem lies with the internal structure and culture of the organization itself, much lies with the elaborate web of legislation and directives from Congress in which the Agency labors. To get a sense of the complexity, consider the U.S. Foreign Assistance Act of 1961, which, as amended, specifies a remarkable 33 goals, 75 priority areas, and 247 directives. These multiple goals are more than just an administrative burden; they make it very difficult for USAID to achieve clear results.

The problem of policy incoherence has been echoed in many other analyses of U.S. foreign aid. For instance, the report of the Ferris Commission—transmitted to the President in April 1992—stated:

AID is burdened with objectives and earmarks imposed by both the Executive Branch and Congress—39 objectives at last count. Many of AID’s management problems flow from policy confusion.... AID’s basic management problems can never be resolved without a reappraisal of the objectives of foreign economic assistance.

Development progress and effective foreign aid are more important than ever. At the same time bilateral foreign aid is handicapped by policy incoherence—multiple and competing goals and objectives that pull in different directions. This has genuine detrimental impacts on aid effectiveness insofar as trying to achieve multiple and conflicting goals with the same dollar of aid prevents a concerted, strategic focus on any one goal. Further, policy incoherence aggravates perceptions of aid ineffectiveness insofar as aid for non-developmental purposes is nonetheless judged on developmental criteria, and found wanting.

This White Paper aims to address both problems. It argues that to establish policy coherence and address both real and perceived effectiveness issues, USAID needs to identify, clarify, and distinguish among its core goals; more clearly align resources with these goals; and manage strategically to achieve results in terms of each goal. Considering the new national security challenges, the lessons of development experience over the past several decades, and the evolving context for development cooperation, the paper posits five core operational goals. It proposes distinct resources for each goal, as opposed to the current situation of trying to achieve multiple goals with the same resource, particularly Development Assistance. For each goal the paper articulates guiding principles for managing these resources strategically.

Annex A examines some of the issues and implications for USAID that flow from these proposals. Annex B looks more closely at the development record, as background for the claim that lessons learned about aid effectiveness flow from considerable success as well as some failure. . . .

Source

The Website of the U.S. Agency for International Development

<http://www.usaid.gov/policy/pdabz3221.pdf>